

HOW EARNINGS AFFECT PAYMENT OF RETIREMENT ANNUITIES

RAILROAD EARNINGS: An annuity is not payable for any month in which an annuitant works in railroad service.

LAST PRE-RETIREMENT (NON-RAILROAD) EARNINGS: Before December 1988, an annuity was not payable for any month an annuitant worked for their last pre-retirement, non-railroad, employer. Beginning December 1, 1988, an annuity is payable **with deductions**, as applicable. These deductions apply to the tier 2 and supplemental annuity. Deductions of \$1 for each \$2 of earnings are applied. These deductions can not exceed one-half the tier 2 and supplemental annuity. A spouse's tier 2 is subject to deductions for both the employee's and the spouse's own earnings. Approved self-employment activities do not cause reductions in the tier 2 or supplemental annuity. Deductions in the tier 2 or in the supplemental annuity continue through the life of the annuity as long as earnings continue for a last pre-retirement (non-railroad) employer. Approved self-employment activities do not cause reductions in the tier 2 or supplemental annuity.

ALL EARNINGS: In addition to the reduction for earnings described above, earnings from any source might affect payment of the tier 1, vested dual benefit or special guaranty components of an annuity. In general, earnings restrictions apply to gross earnings from employment and net earnings from self-employment (NESE). Gross earnings are all salaries, wages, commissions, bonuses (or other money payments), retroactive wage increases, and are before payroll deductions for income tax, social security, insurance premiums, etc. For Federal government employment, earnings are the gross earnings received for services performed after the annuity beginning date, including employee contributions to a retirement thrift plan, union dues, etc.

NESE equals gross income minus expenses under the Self-Employment Contributions Act (SECA). To determine NESE: 1) Add the gross earnings from all trades or businesses carried; 2) Include distributive share from a partnership; 3) Subtract all ordinary and necessary expenses incurred in carrying on the business; 4) Deduct premiums paid for health insurance as a business expense; and 5) Multiply the result of step 4 by .9235 to derive the NESE.

Earnings do not include money you earned from other sources. This includes interest from savings or investments, stocks, bonds, real estate. This also includes gifts or inheritances, pensions, employer contributions to your retirement funds, or other retirement payments.

Each year, separate annual exempt amounts or earnings limits (which are explained on the back of this form) are established by law, one for annuitants under age 65 and another for annuitants age 65-69. No earnings deductions are made in the tier 1 or the vested dual benefit in the following circumstances:

- For years earnings remain below the "annual exempt amount"; or,
- For months an annuitant is age 70 or older; or,
- In the first year of annuity entitlement, for any "non-work month." This is a month in which an annuitant earns less than the monthly exempt amount (the annual amount divided by twelve) or, if self-employed, render no substantial services.

No earnings deductions are made in a tier 1 if an annuitant is entitled to social security benefits.

OTHER INFORMATION

INSURED STATUS FOR REDUCTIONS TO TIER 1 AND VESTED DUAL BENEFIT:

Earnings restrictions may apply to tier 1 and the vested dual benefit as early as the first month that these conditions are met:

For the employee - the employee is an age and service annuitant age 60 - 69, or a disability annuitant age 65-69, and:

- the employee is insured for social security benefits based on the employee's own non-railroad earnings record; or,
- the employee has accumulated Social Security wage quarters and/or railroad compensation quarters after 1974 which would equal the number of quarters of coverage to have an "insured status" under Social Security Administration rules.

For the spouse of a railroad employee - The railroad employee has an "insured status" according to Social Security Administration rules as discussed above.

ANNUAL EXEMPT AMOUNTS FOR TIER 1, VESTED DUAL BENEFIT AND SPECIAL GUARANTY

The following annual exempt amounts apply to the reductions to tier 1 and the vested dual benefit only.

If an annuitant was age 65 or older in 1996, they may earn up to \$12,500 without earnings deductions in tier 1, vested dual benefit or special guaranty. For every \$3 of earnings over the annual limit, \$1 in benefits may be lost. If an annuitant was under age 65, the annual limit is \$8,280. For every \$2 of earnings over the annual limit, \$1 in benefits may be lost. The monthly exempt amount for determining non-work is \$1041 if an annuitant was age 65 or older, or \$690 if they were under age 65.

If an annuitant is age 65 or older in 1997, they may earn up to \$13,500 without earnings deductions in tier 1, vested dual benefit or special guaranty. For every \$3 of earnings over the annual limit, \$1 in benefits may be lost. If an annuitant is under age 65, the annual limit is \$8,640. For every \$2 of earnings over the annual limit, \$1 in benefits may be lost. The monthly exempt amount for determining non-work is \$1125 if an annuitant is age 65 or older, or \$720 if they are under age 65.

By law, annuitants are required to report these types of earnings to the Railroad Retirement Board: return to railroad employment, last pre-retirement (non-railroad) earnings in any amount, and all other earnings over the annual exempt amounts. Failure to report, or to correctly reply to an earnings questionnaire or inquiry may result in temporary annuity suspensions and/or penalty assessments made against an annuitant's annuity rate.